

Consequences of Audit Quality in Signaling Theory Perspective

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Abstract— The purpose of this research is to examine the effect of Audit Quality toward higher fees, lower litigation; good reputation; client and higher valuation. Mostly the research about audit quality only investigate the determinant factors, meanwhile this research investigate the effect of audit quality. The samples of this research are 101 Accountants in many profession around Jakarta roomates selected by purposive sampling. Path analysis is used in this research. The results shown that audit quality have an effect toward higher fees, audit quality have an effect toward lower litigation, audit quality have an effect toward good reputation and audit quality have an effect toward higher valuation client.

Keywords: Audit quality, higher fees, lower litigation, good reputation, client valuation higher.

I. INTRODUCTION

Common and dominant issue that happens to produce a quality audit is the question of the ability of the auditor in detecting misstatement and reporting misstatement. This is in line with the statement DeAngelo (1981) defines audit quality as probability in which an auditor discovered and reported about the existence of a breach in the client's accounting system. The ability of the auditor in detecting misstatement This becomes not mean much when the auditor does not act independently so the impact on the ability and willingness to reporting misstatement. The inability and unwillingness to reporting misstatement impact on audit failure and prejudice that audit quality has declined (Krisnan and Gul, 2009; Francis, 2004).

Francis (2004) states that audit failure will occur under two conditions, namely: (a) when the accounting principles generally accepted (Generally Accepted Accounting Principles or GAAP) are not followed by the auditor (failure GAAP), (b) and when auditors fail to issue or issuing audit reports qualified or modified audit report under the appropriate environmental conditions and appropriate (the failure of the audit report).

Failure audits on high impact litigation and bad reputation, corporate value decreases and fees also declined. Instead audit quality high impact on auditor fees to be received in the future, low litigation, the good reputation and the value of the company increases. It shows that the impact audit quality on auditor and auditee.

This study differs from most research related to audit quality tends to examine the determinants or determinants of audit quality. In this study tested the effects or consequences of audits by the research kulaitas Wooten (2003) and the difference in location of the sample / respondents residing in Indonesia. The difference in the location becomes important in the study of audit quality because of differences between countries in terms of the legal system and legislation in force in the country (Francis, 2004), and geographic location (Choi *et al.*, 2007; Choi *et al.*, 2010) could affect audit quality.

II. LITERATURE REVIEW

The findings Casterella *et. al.* (2009) indicated that a review of the same profession (peer review) Administered independently by the AICPA provide an effective signal and related to audit quality produced by a public accounting firm. The findings Casterella *et. al.* (2009) about the reviews profession (peer review) Will be very useful for predicting the occurrence of audit failure (especially in the case of claims made by clients due to the auditor for non-mal practice or neglect against the existing auditor). Besides these findings relate to a public accounting firm indicators that are specific, and the potential to weaken the control of the quality or auditing practices that are at risk in a public accounting firm.

Furthermore Watkins *et al.* (2004) stated that in the context of determining the price for a security, the audit would be one way to give a signal or a sign of the credibility of the information contained in a financial statement. Further Watkins *et al.* (2004) stated that some analytical paper examines this hypothesis explains the existence of conflicting and relate to how the reputation of the auditor shall perform or serve as a signal.

In line with the above Wooten (2003) states in his research that the model kosekuensi (outcome) Of the quality of the audit are: higher fees, lower litigation; good reputation, and higher client valuation. Based on the statement above, the hypothesis raised is:

- H1: Audit quality effect toward higher fee
- H2: Audit quality effect toward good reputation
- H3: Audit quality effect toward lower litigation
- H4: Audit quality effect toward higher client valuation

Research Model

Based on the hypothesis that was built on this research,

the model of this study are as follows:

$$\text{Higher Fees} = \beta_0 + \beta_1 \text{ Audit Quality} + \epsilon \quad \dots\dots\dots(1)$$

$$\text{Good Reputation} = \beta_0 + \beta_1 \text{ Audit Quality} + \epsilon \quad \dots\dots\dots(2)$$

$$\text{Lower Litigation} = \beta_0 + \beta_1 \text{ audit quality} + \epsilon \quad \dots\dots\dots(3)$$

$$\text{Higher Client Valuation} = \beta_0 + \beta_1 \text{ Audit Quality} + \epsilon \quad \dots\dots\dots(4)$$

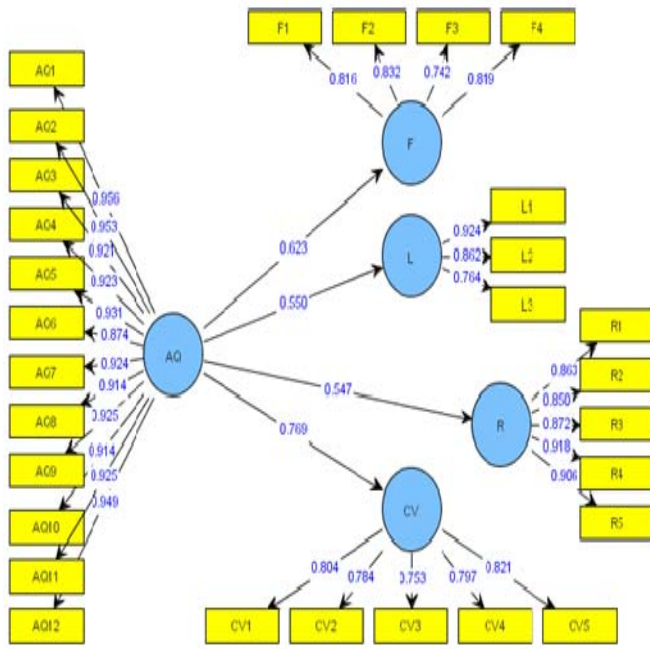


Figure1. Research Model

III. METHODOLOGY

Population and Sample

The population in this study is an accountant in various professions who are in Indonesia, while the sample in this study was the accountant in various professions located in Jakarta and surrounding areas which include auditor, the auditee, regulators, accountants and educators. This is because quality audit interpreted differently by many parties (Wooten, 2003). The election of auditors in different professions located in Jakarta and surrounding areas due to the largest population of KAP (auditor), internal audit and the accounting firm (auditee), And regulator educators and accountants located in Jakarta and surrounding areas.

Sampling Techniques

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(auditee), and regulator educators and accountants located in Jakarta and surrounding areas.

Sampling is done by purposive sampling with Criteria: (1) Accountant in Indonesia, (2) Working in Jakarta and surrounding areas, (3) a minimum of 1 year experience in the field, (4) Available sampled.

Data Analysis Techniques

Path analysis used to describe the effect of quality audit toward higher fee, good reputation, law Litigation, and higher client valuation using primary data

IV. FINDINGS AND DISCUSSION

Effect of Audit Quality Toward Higher Fee

Audit Quality and Fee This has a positive and significant relationship indicated by the value original sample estimate for 0632 and T-statistics for 5.776 (greater than t-count, 1.96). This shows that to obtain fee higher, auditor (KAP) must send a signal to stakeholders that the quality of audits provided by the auditor (KAP) is a high-quality audit.

The results of this study are consistent with the model Wooten (2003) which states that outcome of audit quality is higher fee. These results are also in accordance with the results of the study Hoitash et al. (2007) which states that there is a significant positive relationship between the total fee to audit quality.

This may be explained that when the auditor early pioneering efforts in the field of audit, then the quality becomes the main thing that the auditor will seek to provide high quality audit and quality they are willing to pay the lower fee in hopes of getting a higher fee than the reputation that has been they wake up. Then over time, when the auditor already has a lot of experience and many clients, the fees a major consideration for accepting or rejecting the audit assignment. The impact is when the fee to be received is not as expected, the quality auditors deployed in the audit assignment is not maximal, otherwise when the fee to be received is great and as expected, the quality auditors in the audit assignment will be deployed more experienced auditors and specialists (full team).

Effect of Audit Quality Toward Good Reputation

Audit Quality and Reputation has a positive and significant relationship indicated by the value original sample estimate for 0.547 and T-statistics for 4.513 (greater than t-count, 1.96). This shows that to gain a good reputation, auditor (KAP) must send a signal to stakeholders that the quality of audits provided by the auditor (KAP) is a high-quality audit. The results of this study are consistent with the model Wooten (2003) which states that outcome of audit quality is good reputation.

In contrast to previous studies which examined the effect of reputation on audit quality as in the case above, it can be explained that when the auditor early pioneering efforts in the field of audit , then the quality becomes the main thing in building a good reputation so that the auditor will seek to provide high quality audit quality. Then over time, when the

auditor already has a lot of experience and many clients, the auditor with a good reputation will try to maintain that they have built a reputation by providing high quality audit quality by deploying more specialized and experienced auditors.

Effect of Audit Quality Toward Lower Litigation

Audit Quality and Lower Litigation has a positive and significant relationship indicated by the value original sample estimate for 0.550 and T-statistics for 4.819 (greater than t-count, 1.96). This shows that to minimize litigation, auditor (KAP) must send a signal to stakeholders that the quality of audits provided by the auditor (KAP) is a high-quality audit. The results of this study are consistent with the model Wooten (2003) which states that outcome of audit quality is lower litigation.

The results Palmrose (1988) indicated that non-Big Eight Firm as a group litigation activity higher than KAP Big Eight. These results are consistent with existing research supports the Big Eight as auditors of different quality.

Effect of Audit Quality Toward Higher Client Valuations

Audit Quality and Higher Client Valuations has a positive and significant relationship indicated by the value original sample estimate of 0.769 and the T-statistic for 17.496 (greater than t-count, 1.96). This shows that to increase the value of the company, auditee (Client) must send a signal to stakeholders that the quality of audits provided by the auditor (KAP) is a high-quality audit. The results of this study are consistent with the model Wooten (2003) which states that outcome of audit quality is higher valuation client.

Table. Result for inner weight

Hypothesis	Test	Original Sample Estimate	Mean of Sub Sample	Standard Deviation	T-Statistic	Result
H1	Audit Quality → Fee	0.623	0.608	0.108	5.776	H1 accepted
H2	Audit Quality → Litigation	0.550	0.562	0.114	4.819	H2 accepted
H3	Audit Quality → Reputation	0.547	0.566	0.121	4.513	H3 accepted
H4	Audit Quality → Client Valuation	0.769	0.778	0.044	17.496	H4 accepted

V. CONCLUSION AND RECOMMENDATIONS

Based on the results above, it can be concluded that:

1. Quality significant positive effect on audit fees. This shows that to obtain fee higher, auditor (KAP) must send a signal to stakeholders that the quality of audits provided by the auditor (KAP) is a high-quality audit;

2. Quality audit significant positive effect on litigation. It is shown that by minimizing litigation, auditor (KAP) has given a signal to stakeholders that the quality of audits provided by the auditor (KAP) is a high-quality audit;
3. Quality audit significant positive effect on reputation. This shows that to gain a good reputation, auditor (KAP) must send a signal to stakeholders that the quality of audits provided by the auditor (KAP) is a high-quality audit;
4. Quality audit significant positive effect on value of the company. This shows that to increase the value of the company, the auditee (client) must send a signal to stakeholders that the auditor (KAP) used to produce a high quality audit.

The research was conducted in Indonesia and the results of this study may differ and do not apply in other countries.

For policy makers (Regulator) : Continue to conduct oversight of the quality of services provided by the auditor (KAP).

For Audit Services Users: Choose a high-quality auditor and have a MoU (listed as partners) with the parties concerned with the client (auditee).

For Auditor: In order to continue to maintain the quality of the audit. Due to high impact audit quality higher fees, lower litigation; good reputation, and higher client valuation.

For the next researcher: (1) Use different theory; (2) Distributing questionnaires avoided the busy start of the year due to the auditor.

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